

Secret

08/R
4643

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

Secret

113

3 November 1969
No. 0506/69

Secret

25X1

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

Secret

SECRET

CENTRAL INTELLIGENCE AGENCY
Directorate of IntelligenceThe Economic Situation in South VietnamSummary

The large increase in taxes on imports announced by the government on 23 October is the most important economic stabilization measure enacted since the devaluation of the piaster in June 1966. Although prices of goods will rise in the short run, the longer-term effect should be to reduce inflationary pressure by reducing substantially the government's budget deficit. The higher tax rates affect about three-fourths of total commercial imports, but basic foodstuffs were exempted in an effort to lessen the burden on those persons with low or fixed incomes.

During the week ending 29 October the black market value of the piaster fell to a new low as many Vietnamese reacted to the new tax measure by converting their piasters into dollars and gold. Retail prices, which increased about two percent a week during the three weeks prior to the announcement of the tax increase, reportedly have begun to increase at a faster rate.

ANNEX: Monthly and Weekly Currency and Gold
Prices (graph)

SECRET

SECRET

Major New Tax Measure

1. On 23 October the South Vietnamese Government enacted its most important anti-inflation measure since the devaluation of the piaster in mid-1966. Facing the prospect of another large budget deficit in 1970, the government decreed tax increases on imported goods that could almost double government revenues from imports. Such an increase in revenues from imports is especially significant since customs duties and other taxes on imports account for roughly half of total government revenues. While the longer-term effect of the tax increase will be to stabilize prices, there will be an immediate sizable increase in the price of the imported goods affected, and some of this increase will spill over to the prices of domestically produced goods. Public reaction to the tax increase has naturally been highly critical. Both houses of the National Assembly have protested the action, especially because the government decreed the tax increases without submitting them for legislative approval. Following the announcement of the tax increases, the black market value of the piaster plummeted as some Vietnamese apparently decided to pay a much higher price to get dollars rather than hold their piasters or buy the more expensive goods.

2. The government announced average increases by groups of commodities ranging from 12 to 156 percent in austerity tax rates affecting about three fourths of imports. (Austerity taxes, in addition to customs duties, are part of the Vietnamese tariff schedule). The remaining one fourth of imported goods, consisting of basic foodstuffs, agricultural inputs, and newsprint, are exempted from the increases. Except for the group of exempted goods, the lowest austerity tax rate under the new schedule is 185 piasters (\$1.57) per dollar value on imports of raw materials for pharmaceuticals and beverages, agricultural machinery, cotton yarns, and paper pulp. The highest rate falls on passenger cars--980 piasters (\$8.30) per dollar, up from 460 piasters per dollar. The major factor determining the size of the tax increase on various categories of goods was the

SECRET

SECRET

degree to which they qualified as basic necessities, but consideration also was given to the government's desire to promote industrialization and to minimize smuggling and diversion of goods from US post exchanges. The latter factor resulted in smaller austerity tax increases on radios, watches, cameras, etc. than otherwise would have been levied.

3. Vietnamese and US officials estimate that the new austerity tax increases will raise the cost of all imports an average of about 50 percent, or about 65 percent for the three fourths of imports directly affected. During January-September 1969 the USAID price index for imported commodities increased 28 percent, a large share of which was due to increases in the perequation tax--still another tax on imports--decreed in June. In a press conference on 25 October Minister of Finance Hue indicated that he does not expect the retail price index for Saigon to reflect the full amount of the increase in prices of imports since many imports are only components of products which are produced domestically. He estimated that following several weeks of instability, the increase in retail prices as a result of the new tax measure would be about 20 percent, or the same increase that occurred during the first nine months of this year.

4. The tax increase will cause a shift in demand from higher to lower taxed goods, but US-GVN officials estimate that total demand for imports in 1970 will amount to at least \$600 million, an amount roughly 20 percent below the record level of 1969 but equal to the average value of commercial imports during 1967-68. Revenues from imports of this magnitude are estimated at about 90 billion piasters (\$760 million), or roughly double the projected revenues from imports in 1969. Because the government's final estimates of total revenues and expenditures in 1970 are not yet available, it is impossible to judge the over-all effect of the new revenue measure. In early October, however, President Thieu submitted a draft budget for 1970 to the National Assembly containing expenditures of 182 billion piasters with a deficit

SECRET

SECRET

of 57 billion piasters. Clearly a large increase in revenues could mean an equally large reduction in the budget deficit, which has been a major source of inflationary pressure in South Vietnam during the past several years.

Black Market Activity

5. Price quotations in the Saigon black market during the week ending 29 October indicate that many Vietnamese reacted to the new austerity measure by converting their assets into dollars or gold. The price of dollars went from 230 piasters per dollar on 22 October to 264 piasters on 29 October, and the price of a dollar's worth of gold leaf jumped from 320 piasters to 381 piasters. These rates are new highs. The rate for MPC increased less sharply from 140 piasters to 145 piasters per dollar. It is likely that the willingness to pay a very high price in order to get dollars and gold reflects the Vietnamese' fear that the rate of inflation will increase and further erode the value of the piaster. Within the next several weeks there could be an increased volume of black market transactions because the government is allowing importers a 30-day period in which to cancel or alter their previous orders for imports in the light of the greatly increased taxes on imports. Importers could decide to cancel a sizable portion of their orders, liquify their assets, and convert them into dollars and/or gold. (A graph on monthly and weekly currency and gold prices is included in the Annex).

Prices

6. Detailed information on retail prices in Saigon is not available, but it appears that from the beginning of October until the new tax measure was announced on the 23rd prices increased at the rate of about two percent a week, mainly because of increases in rice prices. During the week following the announcement of the austerity tax increases on imports, retail prices reportedly increased at a faster rate as merchants took

SECRET

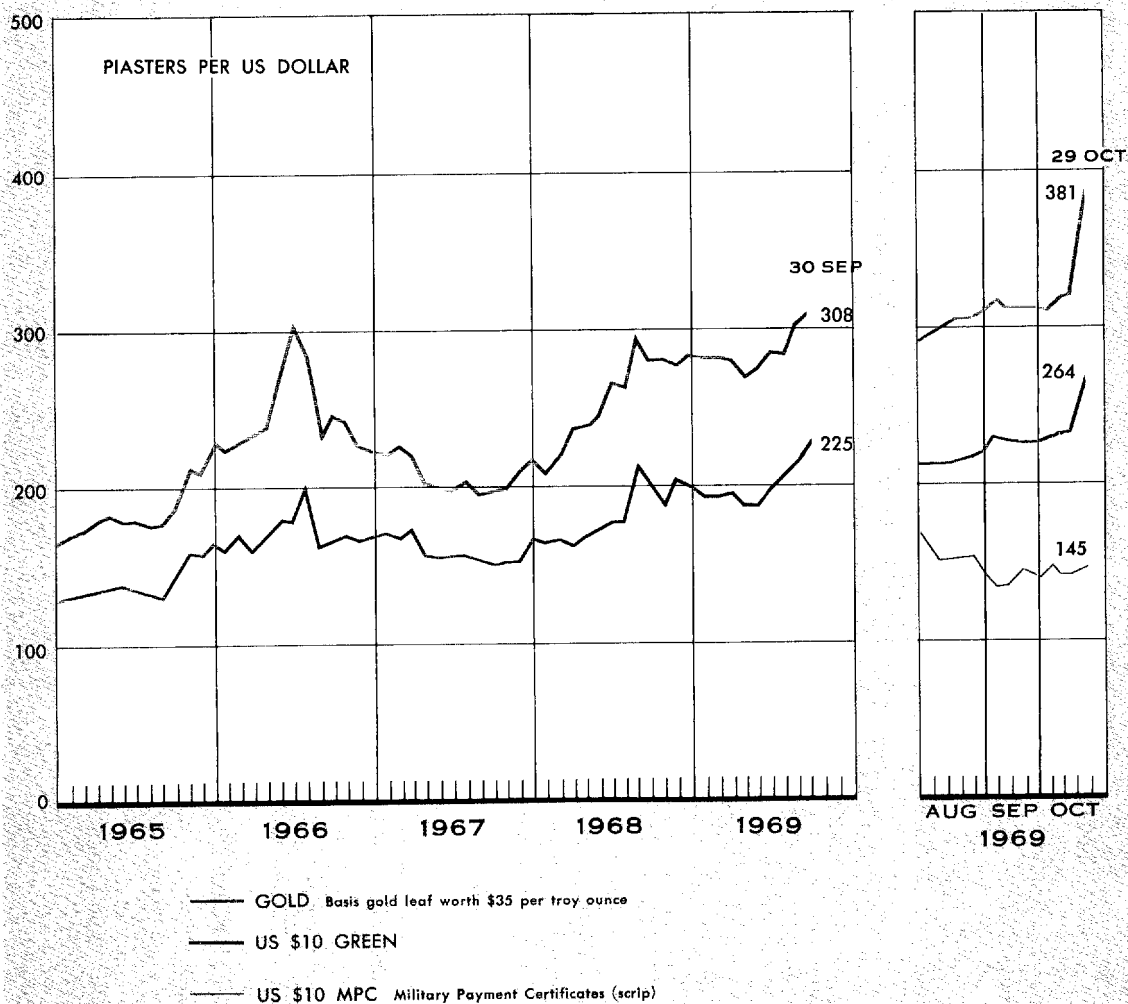
~~SECRET~~

advantage of the higher prices of imported goods to raise prices of domestically produced goods as well. Moreover, consumers reportedly are outbidding each other for purchases of available supplies. In a move to discourage speculation in the price of rice, the US and Vietnamese governments speeded up the signing of a new Food for Peace (PL-480) agreement for imports of 150,000 metric tons of rice in 1970. The government apparently also will attempt to prosecute merchants who illegally raise prices, despite the failure of such attempts in the past.

-5-

SECRET

Saigon Free Market Gold and Currency Prices



96323 10-69 CIA

Secret

Secret